

Message Text

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

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TAGS: EFIN, FR

SUBJECT: FRENCH MONETARY POLICY

1. SUMMARY: MONETARY POLICY IN FRANCE IN 1975 CLEARLY WAS AIMED AT OVERALL RESTRAINT, CONSISTENT WITH RESTRAINING STILL STRONG INFLATIONARY PRESSURES WHILE AT THE SAME TIME EASING RESTRAINTS SUFFICIENTLY TO LOWER INTEREST RATES AND TO FACILITATE THE DISTRIBUTION OF CREDIT. MONEY SUPPLY (CURRENCY IN CIRCULATION, TIME DEPOSITS, AND QUASI-MONEY) PROBABLY ROSE BY ABOUT 15 TO 16 PERCENT IN 1975, A SLIGHTLY SMALLER INCREASE IN NOMINAL TERMS THAN OCCURRED IN 1974. THE AUTHORITIES CONSIDER THE PRESENT LEVEL OF INTEREST RATES APPROPRIATE.

THE POTENTIAL INCREASE IN CREDIT UNDER EXISTING GUIDELINES CLEARLY IS ADEQUATE TO FINANCE THE GRADUAL RECOVERY ENVISIONED BY THE AUTHORITIES. THUS NO SIGNIFICANT CHANGE IN THE CURRENT CAUTIOUS OVERALL
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MONETARY POLICY IS LIKELY IN THE COMING MONTHS. UNDER

PRESENT POLICY SOME TIGHTENING IN INTEREST RATES IS POSSIBLE BY MID-YEAR IF FINAL DEMAND IN THE ECONOMY INCREASES ALONG THE LINES ANTICIPATED. END SUMMARY

2. THE CHANGES IN COUNTERPARTS OF THE MONEY SUPPLY THROUGH SEPTEMBER 1975 SHOW THAT TREASURY DEBT HAD RISEN BY 38.9 PERCENT, COMPARED TO 19 PERCENT FOR THE SAME PERIOD OF 1974. THIS REFLECTED THE CHANGE IN FISCAL POLICY ANNOUNCED IN SEPTEMBER WITH THE ECONOMIC SUPPORT PROGRAM. HOWEVER, BY OCTOBER THE RATE OF GROWTH OF TREASURY DEBT OPERATIONS SLACKENED SHARPLY, TENDING TO CONFIRM OUR EARLIER ANALYSIS THAT THE MONETARY EFFECTS OF THE ECONOMIC SUPPORT PROGRAM WOULD BE SHORT LIVED. DURING THE SAME PERIOD OF 1975 CURRENCY AND FOREIGN EXCHANGE ROSE BY 15.3 PERCENT, A SHARP REVERSAL OF THE 9.8 PERCENT DECLINE IN 1974. THIS INCREASE IN 1975 REFLECTED MAINLY THE IMPROVEMENT IN FRENCH EXTERNAL ACCOUNTS, INCLUDING THE TRADE SURPLUS AND CAPITAL INFLOWS. THROUGH SEPTEMBER 1975, CREDITS TO THE ECONOMY REGISTERED THE MOST FEEBLE ADVANCE IN A DOZEN YEARS. THUS, FISCAL OPERATIONS AND THE BALANCE OF PAYMENTS SURPLUS IN 1975 HAVE ACCOUNTED FOR THE GREAT BULK OF THE GROWTH OF THE MONEY SUPPLY. PRELIMINARY FIGURES INDICATE NO SIGNIFICANT CHANGE IN THE ABOVE TRENDS.

3. IN 1976 TREASURY DEBT OPERATIONS PROBABLY WILL CONTINUE TO DECLINE AS A COUNTERPART OF THE GROWTH OF MONEY SUPPLY. AT THE SAME TIME THE RE-EMERGENCE OF A TRADE DEFICIT, EVEN IF OFFSET BY CAPITAL INFLOWS, WILL ALSO PROPORTIONALLY REDUCE NET EXTERNAL EARNINGS AS A COUNTERPART OF MONEY SUPPLY GROWTH. CONSEQUENTLY, IN 1976 MONEY SUPPLY GROWTH WILL LARGELY REFLECT THE GROWTH OF CREDIT IN THE ECONOMY. AS CREDIT DEMAND, EXCEPT FOR WORKING CAPITAL, IS WEAK, THIS IMPLIES A RELATIVELY SLOW GROWTH IN FRENCH MONEY SUPPLY IN THE COMING MONTHS. THIS IS PROBABLY JUST WHAT THE MONETARY AUTHORITIES DESIRE SINCE THEY CONTINUE TO VIEW INFLATION AS THE MAJOR THREAT TO THE FRENCH ECONOMY.

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4. THE MONETARY AGGREGATES IN FRANCE DEMONSTRATE CONCLUSIVELY THAT DESPITE RECESSION AND UNEMPLOYMENT, MONETARY POLICY HAS BEEN AND REMAINS VERY CAUTIOUS. FROM THIS IT IS EVIDENT THAT INFLATION AND EXTERNAL BALANCE REMAIN THE MAJOR OBJECTIVES OF FRENCH MONETARY POLICY AND THAT ECONOMIC REVIVAL, AS SUCH, IS NOT THE MAJOR OBJECTIVE OF MONETARY POLICY. THIS

MEANS THAT THE AUTHORITIES ARE PREPARED TO WAIT FOR
MARKET FORCES TO INITIATE A SUSTAINED UPTURN IN THE
ECONOMY. THIS POLICY OBVIOUSLY HAS INVOLVED A
POLITICAL JUDGEMENT AT THE HIGHEST LEVEL. TO THE
EXTENT THAT MONEY TALKS, THE GOF HAS CONCLUDED THAT
THE PRESENT AND ANTICIPATED ECONOMIC SITUATION WILL
BE MANAGEABLE IN POLITICAL AND SOCIAL TERMS.
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